

## **METHODOLOGY OF FIRST INVESTMENT BANK AD FOR DETERMINING OF A BASIC INTEREST RATE**

(applicable for business clients)

### **I. Purpose**

1. The present Methodology establishes the method for determining and calculation of the Basic Interest Rate (BIR applied by First Investment Bank AD ("Fibank" or "the Bank") as basis for determining the interest rates on credit transactions.

2. The Bank shall determine BIR for each individual currency in which it extends loans.

### **II. Methodology of calculation**

BIR shall be determined on a monthly basis and shall enter into force from first day of each month.

The following objective components shall be used in the definition and calculation of the Basic Interest Rate:

#### **1. Projected liability costs (PLC)**

The projected liability costs (the costs of financing of the Bank) are based on the weighted average costs of the liabilities of the Bank, calculated at the end of the month preceding the last calendar month (historical cost). In case of agreed and definite changes in the cost of funding of the Bank, the historical cost shall be adjusted for the expected changes in the liability costs.

In calculating the PLC, the effective interest rates applicable to the interest-bearing liabilities of Fibank on an unconsolidated basis shall be used, including subordinated liabilities and debt-equity (hybrid) instruments. The calculations shall take into account the minimum mandatory reserves maintained by Fibank with the BNB, as well as the costs of borrowed funds such as premium contributions of the Bank to the Bulgarian Deposit Insurance Fund. Liabilities borrowed under repurchase transactions (repos) shall not participate in the calculation of PLC.

All liabilities shall participate in the calculation of PLC, regardless of the currency in which they are denominated. The calculated value shall be applied to all currencies.

#### **2. Market interest rates**

Market interest rates (on the interbank market) shall participate in determining the BIR by setting the minimum value of BIR for the respective

currency. The Rates used are: Base interest rate of of the BNB for BGN, 1-month EURIBOR for EUR, 1-month LIBOR for all other currencies.

### **3. Currency risk premium**

This premium reflects the likelihood of significant disturbance in the economy of the issuing country of the respective currency (for Euro - the economies of the Eurozone countries). For the purpose the Bank assesses the objective and risk-neutral probability of default of the issuing country of the respective currency and any losses that would result from such default. The currency risk premium is dependent on changes in the credit rating of the issuer of the respective currency, according to the independent assessment of an international rating agency.

### **4. Market environment adjustment**

In view of the current market environment and the realization of cross-selling income, the Bank may apply specific reductions in BIR for certain target groups. The effecting of the specific reduction for each target group shall be done through the *market environment adjustment* component.

### **5. Liquidity and capital premium**

The liquidity and capital premium includes a premium for maintaining liquidity and a premium for maintaining a capital buffer. The liquidity premium reflects Fibank's assessment of the liquidity risk in the banking system and depends on the difference between the maintained level of liquidity and budgeted target level for the relevant phase of the business cycle. The capital buffer premium depends on the difference between the current level of capital and budgeted target level for the relevant phase of the business cycle.

6. The current value of BIR is calculated by adding the *Currency risk premium*, the *Liquidity and capital premium*, as well as the *Market environment adjustment* for the respective currency and segment to the greater of *Projected liability costs* and *Market interest rate*.

In case of a minor deviation with regard to the currently effective reference interest rate, the BIR shall not change.

### **III. Disclosure and communication of information on BIR**

With a view to transparency and trust in its relations with customers and in accordance with legal requirements, the Bank shall announce the base interest rate and the methodology for its calculation on its website and by other appropriate means at its discretion.